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INFORMATION PAPER

Subject: PLA Involvement in Defense Industry and Views on Defense Conversion

1. Purpose: To provide the Chairman, Joint Chiefs of Staff with information to support the visit of Chinese PLA General XU Huizi.

2. Key Points

- The decision to convert much of China's huge defense industry to civilian use dates back to the third session of the 11th Central Committee Plenum in 1978. Momentum developed in the mid-1980s, further boosted by Deng Xiaoping's dictum to "just make money."

- Conversion in China has been a top-down, state-directed program under the direction of the Party elders, the Politburo, the State Council, and the Central Military Commission. The key organizations responsible for coordinating and implementing conversion policies are:

- The State Commission for Science, Technology, and Industry for National Defense (COSTIND)
- The State Planning Commission (SPC)
- The State Science and Technology Commission (SSTC)
- The High-Technology Plan Coordination Group.

- Chinese defense conversion is usually presented as having four major components:

- transfer of military technology to civilian uses
- shift of military RDT+E and production capabilities to civilian projects
- turning idle military facilities such as airfields, harbors, and docks over to civilian use
- settlement of demobilized military personnel.

- What the Chinese call defense conversion might be better termed "diversification." There appears to be a requirement to maintain original military production capabilities, even if rarely used.

- New services and organizations are a major derivative of "conversion."

- The stated goal is that 80 percent of output should be civilian goods by 1999, up from eight percent in 1979 and 70 percent in 1993.
- In 1993, 30-40 percent of the converted factories were making a profit, 30 percent were breaking even, and the rest were losing money.
- The fastest growing potential source of defense funding is PLA profits on its civilian goods and services. These profits could equal or surpass the public defense budget.
- The Chinese are extremely interested in converting defense industries to civilian use, especially since many have become major drains on the economy. They are attempting to acquire foreign capital in the form of grants, direct investment or joint ventures. Acquisition of technology in all forms is of foremost importance.

Prepared by:

